Franklin Technology Fund–A (acc) USD

Sector Equity
30 September 2021

Franklin Templeton Investment Funds

Fund Manager Report

Product Details[1]

Fund Assets	$10,217,966,003.43
Fund Inception Date	03/04/2000
Number of Issuers	97
Bloomberg	TEMTECI LX
ISIN	LU0109392836
Base Currency	USD
Investment Style	Sector
Benchmark	MSCI World Information Technology Index
Morningstar Category™	Sector Equity Technology

Asset Allocation[2]
Percent of Total

	%
Equity	97.53
Cash & Cash Equivalents	2.47
Fixed Income	0.00

Overall Morningstar Rating™ [a]

★★★★★

Effective 29 September 2017, Franklin Technology Fund changed its benchmark to the MSCI World Information Technology Index, following the discontinuation of the BofAML Technology 100 Index.

Fund Description

The fund aims to achieve capital appreciation by investing at least two-thirds of its assets in equity securities of companies expected to benefit from the development, advancement and use of technology.

Performance Data

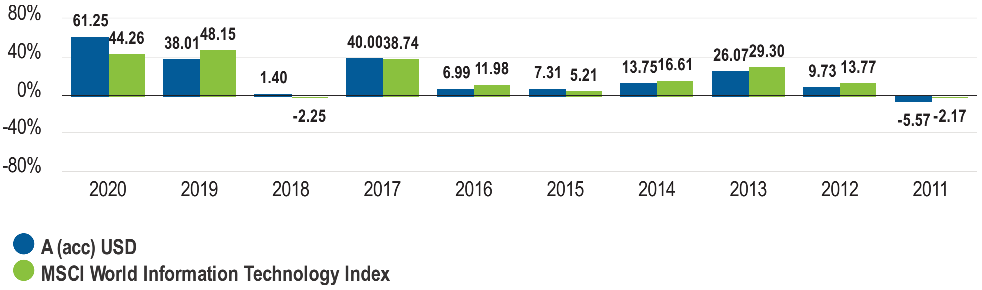
Discrete Annual Performance (%) as at 30/09/2021

	9/20-9/21	9/19-9/20	9/18-9/19	9/17-9/18	9/16-9/17
A (acc) USD	33.57	54.70	6.29	26.12	28.22
MSCI World Information Technology Index USD	29.76	45.68	6.99	28.62	28.37

Performance Net of Management Fees as at 30/09/2021 (Dividends Reinvested) (%)[b,c]

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	Since Inception (03/04/2000)
A (acc) USD	-4.78	0.18	16.46	33.57	29.98	28.85	21.63	7.26
MSCI World Information Technology Index	-5.70	1.48	14.87	29.76	26.46	27.28	21.81	5.15

Calendar Year Returns (%)



Past performance is not an indicator or a guarantee of future performance.

Portfolio Manager Insight

Performance Review

QUARTERLY KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	Bill.com Holdings (Off-Benchmark Exposure)	Application Software (Stock Selection)
	Atlassian (Off-Benchmark Exposure)	Semiconductors (Stock Selection, Underweight)
	Asana (Significant Overweight)	Data Processing and Outsourced Services (Underweight)
HURT	Alibaba Group Holding (Off-Benchmark Exposure)	Internet and Direct Marketing Retail (Off-Benchmark Exposure)
	Roku (Off-Benchmark Exposure)	Interactive Media and Services (Off-Benchmark Exposure)
	Tencent Holdings (Off-Benchmark Exposure)	Movies and Entertainment (Off-Benchmark Exposure)

- The fund's third quarter results were mixed. Good single stock selection in various parts of enterprise software, automotive, and semiconductors was tempered by a rapidly changing regulatory landscape in China and volatile interest rate expectations. Relative performance

1. All holdings are subject to change. Holdings of the same issuers have been combined.
2. Percentage may not equal 100% due to rounding. All holdings are subject to change.

was negative for the first half of the period but improved during the second half, until the last week of September when rising rate expectations hurt higher-growth tech stocks. Sector valuation was elevated in absolute terms across all portfolio sub-industries, and became more elevated as the quarter progressed in relative terms as well.

- Our application software holdings, including key contributors Bill.com, Atlassian, Asana, HubSpot, and Datadog, posted an impressive overall gain that was roughly seven times higher than the overall benchmark return. Throughout the summer months, cloud-based “intelligent” bill/invoice management system provider Bill.com was a standout. Bill.com offers businesses a uniquely streamlined, timesaving fintech product powered by an artificial intelligence (AI) / machine learning programme that can anticipate customer needs through automation. The company’s equity value soared after it reported impressive second-quarter results with upgraded guidance for the rest of 2021. Additionally, more analysts and investors have grown enthusiastic about the company’s potential as it consolidates its position in what could be a US$40 billion addressable global market opportunity.
- China-based e-commerce giant Alibaba was amongst our largest detractors, and in general the portfolio’s Chinese tech stocks have shown erratic performance lately. The company lost about a third of its market value over the past three months. Some Chinese companies have seen their industries uprooted amidst political pressures, while others faced a surge in government regulation as Beijing rolls out strict new anti-monopoly initiatives—the latter of which were directed at Alibaba. Not only did Ant Financial indefinitely suspend a potentially lucrative initial public offering (Alibaba owns about one-third of Ant), but the government also took a closer look at Alibaba’s massive operations and decided to levy a US$2.8 billion fine on the company. Online gaming and social-media company Tencent and other companies also sold off in response to China’s intensifying regulatory crackdown on property, private education, technology, data security and other sectors of the economy. Tencent is the world’s largest gaming company in the world’s largest gaming market, and the rules around its various gaming platforms are coming under more targeted anti-monopoly pressures, which continued to build after Chinese state-run media voiced concern over “gaming addiction.”

ONE-MONTH KEY PERFORMANCE DRIVERS

	Stocks	Industries
HELPED	Asana (Off-Benchmark Exposure)	Application Software (Stock Selection, Significant Overweight)
	Lucid Group (Off-Benchmark Exposure)	Automobile Manufacturers (Off-Benchmark Exposure)
	MongoDB (Significant Overweight)	Hotel, Resorts and Cruise Lines (Off-Benchmark Exposure)
HURT	Veeva Systems (Off-Benchmark Exposure)	Interactive Media and Services (Off-Benchmark Exposure)
	BigCommerce Holdings (Off-Benchmark Exposure)	Semiconductors (Stock Selection)
	Couchbase (Significant Underweight)	IT Consulting and Other Services (Off-Benchmark Exposure)

- During September, the fund fared better than the index in what turned out to be one of the worst months for technology-related shares since the pandemic began. Against this backdrop, nearly all of our industry allocations were net detractors in absolute terms, but most of them still had a positive impact on returns versus the index.
- On the upside, our relative returns were supported by sizeable double-digit percentage gains for Asana, Lucid Motors (a Saudi-owned, California-based luxury electric vehicle start-up) and MongoDB, which offers a cross-platform document-oriented database programme. Top contributor Asana’s app is designed to help teams organise, track, and manage their work from anywhere. Asana reported trailing and anticipated financial results that topped analyst expectations. Its second-quarter business activity was characterised by better-than-expected earnings per share, revenue, billings (15% better than expected), operating margins, strong larger customer activity, improving retention and, most importantly, improving unit economics on a year-ago basis. We believe Asana is a later stage COVID beneficiary as enterprises realise that even in a post-COVID world, hybrid work will be the path going forward. Hybrid will require a digital system of coordination and planning like Asana and some of our other portfolio holdings provide.
- On the downside, key detractor Veeva Systems, our only position in the health care technology industry, is a data cloud solutions provider that helps health care companies—ranging from pharmaceutical giants to smaller life sciences entities—effectively store and manage their information, including clinical trial data. The shares sold off their all-time peak amidst a lofty valuation despite reporting strong results in the first half of its fiscal 2022 (ended 31 July), for which Veeva reported a revenue increase of about 29% from the year-ago period, driven by a 28% boost in its subscription services as well as a 33% increase in its professional and other services. We retain a positive outlook on Veeva though it may be starting to feel the headwind of much-anticipated pharma sales rep headcount reductions, a condition we think could remain in place for another year or so.

Outlook & Strategy

- Recent interactions with investors and clients convince us that the market is attempting to gauge the durability of sector growth in this increasingly post-crisis world. Discussions with sector participants and technology buyers give us confidence that our thesis is on track. Specifically, we believe that COVID-19 accelerated the Digital Transformation (DT) opportunity, and that growth will be robust for the businesses we own for many years as businesses and their customers seek to build upon the new digital skills they acquired during the crisis.
- IT sector companies have traded at a significant premium to broad equity indices over the past 30 years and well above that average in September 2021. We continue to believe that a premium is warranted given the strong and secular growth in the sector, the acceleration of DT and the improving quality in the sector—e.g., a growing number of companies with data moats, platform business models, growing recurring revenue sources, strong balance sheets and strong overall EBITDA (earnings before interest, taxation, depreciation and amortisation) margins. That said, this premium is now the highest we have seen since the global financial crisis. Given this dynamic, we have been much more careful about adding to names trading at or above our analysts’ base case scenarios.
- Despite the recent volatility tied to re-opening, rising interest rates, increased inflation expectations and a quickly changing regulatory landscape in China, we believe the sector offers solid exposure to strong secular opportunities relating to DT and its supporting sub-themes including (1) artificial intelligence, machine learning and data analytics; (2) new commerce; (3) software-as-a-service and secure cloud computing (as a combined category); (4) digital media transformation (our newest portfolio focus); (5) digital customer engagement; (6) fintech and digital payments; (7) internet of things (IoT) and electrification; (8) 5G communications networks; (9) cyber security; and (10) the future of work.

- The IT sector slightly trailed the broader market from a year ago, while the communication services sector was a solid outperformer. The general resilience of these sectors, we believe, was driven by investors appreciating that technology was the antidote to many of the operational challenges that the pandemic created. Specifically, the pandemic helped to accelerate investment in "work from home," cyber security, workflow automation and coordination, remote healthcare, and omni-channel commerce technologies. That said, we do not believe that investors fully appreciate what is coming next as the extended pandemic taught businesses, employees, customers, patients and students that they could be more productive and have more balanced lives using the new digital skills they built during the crisis.
- Given the dynamics mentioned above, we do not anticipate that the world will return to the pre-pandemic norms. Instead, we expect businesses to operationalise and scale what worked during the crisis, abandon what did not, and continue to iterate. We expect consumers to continue to embrace new commerce tools and to increasingly prefer digitally augmented experiences. Simply put, we believe that the crisis was the beginning of our society's digital transformation—not the beginning, middle and end of it. If this proves true, we believe the fundamental growth we saw during the crisis for a subset of companies and themes will broaden and extend as the world re-opens. Our discussions with many of the companies we follow indicate to us that this is exactly what is happening.
- Aside from valuations, the other risks we are currently monitoring include the pandemic, regulation, supply chain constraints (semiconductors, electronics manufacturing, and logistics in particular) and the implications of a growing talent crunch across IT and communication services industries. In particular, we are paying close attention to the US and EU investigations into the business practices of key digital leaders including Alphabet, Amazon, Facebook and Apple (the fund held significant positions in all four, though we completely sold Facebook on 1 October). In the United States, the appointment of Lina Khan to head the Federal Trade Commission is particularly concerning to us given her aggressive views on Big Tech, and her stated desire to do away with the current "consumer harm" test in US anti-trust jurisprudence. We have also been surprised by the aggressiveness with which China has sought to exert more control over the country's Big Tech names which, given our concerns over related companies' long-term profit and growth potential, led us to reduce key positions in recent months. Finally, tech sales and engineering employment capacity are getting tight; as talent becomes increasingly harder to find, it may lead to more companies embracing low-code and software engineer productivity tools, product-led growth, and digital selling techniques, many of which were heavily embraced during COVID-19.

Portfolio Characteristics[d]

	Portfolio	MSCI World Information Technology Index
Market Capitalisation (Millions in USD)	460,160	864,228
Price to Earnings Growth Ratio	1.95x	1.70x
3-Year Sales Growth	24.61%	13.72%
Estimated 3-5 Yr EPS Growth	17.87%	18.54%
Price to Earnings (12 Month Forward)	41.53x	27.95x

Portfolio Diversification

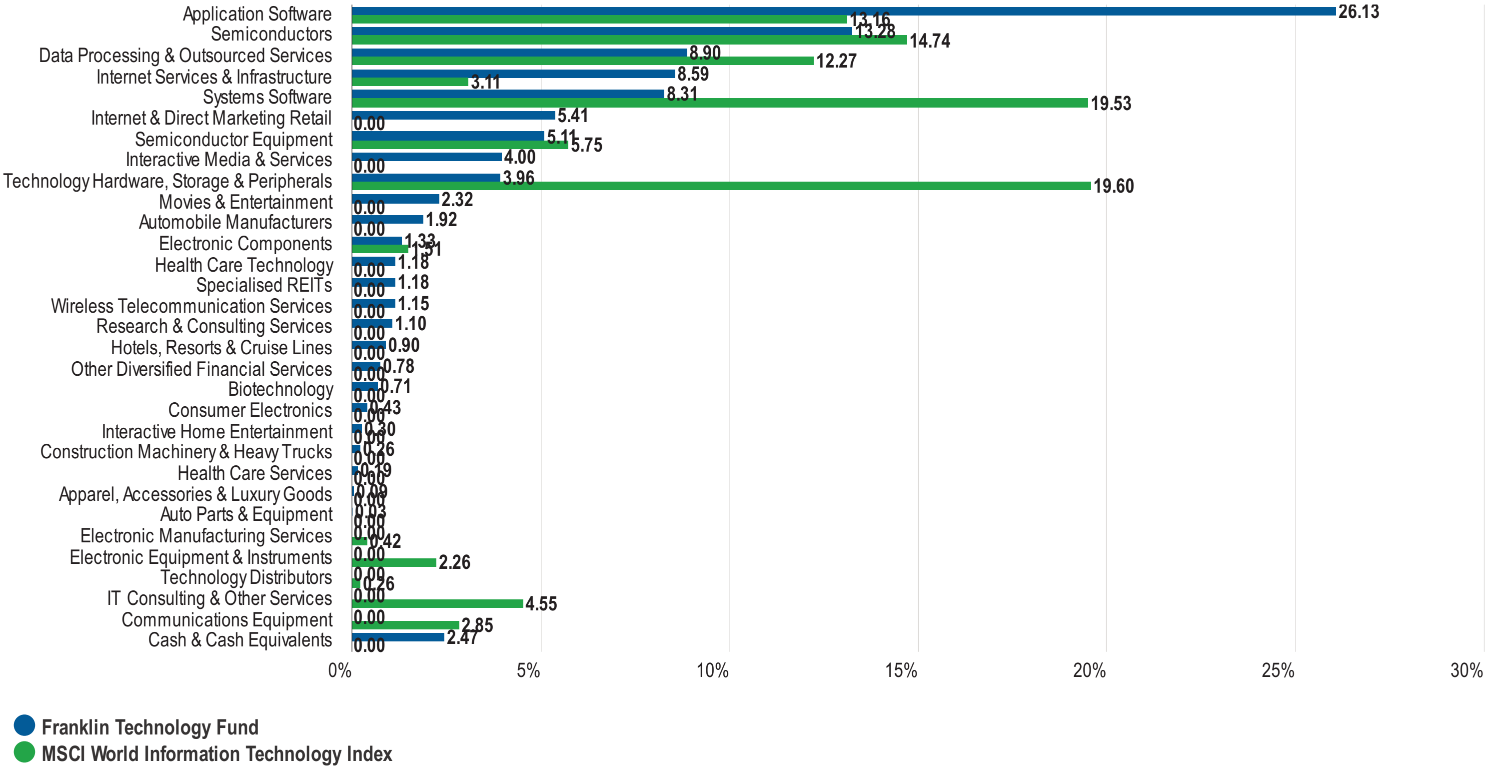
Top Ten Holdings[e]

Percent of Total

Top Holdings	%
MICROSOFT CORP	4.60
AMAZON.COM INC	4.23
APPLE INC	3.96
NVIDIA CORP	3.12
SERVICENOW INC	2.72
PAYPAL HOLDINGS INC	2.58
ALPHABET INC	2.50
VISA INC	2.46
BILL.COM HOLDINGS INC	2.44
SALESFORCE.COM INC	2.41

Sector Weightings vs. MSCI World Information Technology Index[f]

Percent of Total



Performance Statistics

Risk Statistics[3]

	3 Yrs	5 Yrs	10 Yrs	Since Inception
Standard Deviation (%)				
Franklin Technology Fund	21.79	18.30	17.00	25.47
MSCI World Information Technology Index	21.10	17.61	15.98	22.92
Tracking Error (%)	7.51	6.43	6.14	8.45
Information Ratio[4]	0.47	0.25	-0.03	0.23
Beta	0.97	0.97	0.99	1.05
Sharpe Ratio				
Franklin Technology Fund	1.33	1.52	1.24	0.23
MSCI World Information Technology Index	1.21	1.49	1.33	0.18

Investment Team

Portfolio Manager	Years with Firm	Years Experience
Jonathan T. Curtis	13	17
Dan H. Searle III, CFA	20	20
Matthew Cioppa, CFA	6	13

What Are the Key Risks?

The value of shares in the Fund and income received from it can go down as well as up and investors may not get back the full amount invested. Performance may also be affected by currency fluctuations. Currency fluctuations may affect the value of overseas investments. The Fund invests mainly in equity securities of technology companies worldwide. Such securities have historically been subject to significant price movements that may occur suddenly due to market or company-specific factors. As a result, the performance of the Fund can fluctuate significantly over relatively short time periods. Other significant risks include: equity risk, securities lending risk. For full details of all of the risks applicable to this Fund, please refer to the "Risk Considerations" section of the Fund in the current prospectus of Franklin Templeton Investment Funds.

3. Beta, Information Ratio and Tracking Error information are measured against the MSCI World Information Technology Index.
4. Information Ratio is a way to evaluate a manager's ability to outperform a benchmark in relation to the risk that manager is assuming, with risk defined as deviation from the benchmark. This measure is calculated by dividing the portfolio's excess return (portfolio return less the benchmark return) by the tracking error (derived by taking the standard deviation of the monthly differences between the portfolio return and the benchmark return over time).

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Important Legal Information

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Past performance is not an indicator or a guarantee of future performance. The value of shares in the Fund and income received from it can go down as well as up, and investors may not get back the full amount invested. Investment in the Fund entails risks which are described in the Fund's prospectus and, where available, in the relevant Key Investor Information Document or any other relevant offering document. Special risks may be associated with a Fund's investment in certain types of securities, asset classes, sectors, markets, currencies or countries and in the Fund's possible use of derivatives. References to particular industries, sectors or companies are for general information and are not necessarily indicative of a fund's holdings at any one time. Currency fluctuations may affect the value of overseas investments. When investing in a fund denominated in a foreign currency, your performance may also be affected by currency fluctuations. Where a Fund invests in emerging markets, this investment can be more risky than an investment in developed markets. No shares of the Fund may be directly or indirectly offered or sold to residents of the United States of America.

The information provided is not a complete analysis of every material fact regarding any country, market, industry, security or fund. Because market and economic conditions are subject to change, comments, opinions and analyses are rendered as of the date of this material and may change without notice. A portfolio manager's assessment of a particular security, investment or strategy is not intended as individual investment advice or a recommendation or solicitation to buy, sell or hold any security or to adopt any investment strategy; it is intended only to provide insight into the fund's portfolio selection process. Holdings are subject to change.

In addition, it should not be assumed that any securities mentioned were or will prove to be profitable. Stocks mentioned in this report are not a solicitation to purchase those stocks, and are examples of some stocks which performed well. Not all stocks in the portfolio performed as well. For the most current information on the fund, please contact your Franklin Templeton marketing representative.

Performance figures are not based on audited financial statements and assume reinvestment of interest and dividends. When comparing the performance of Franklin Templeton Investment Funds (the "Fund") with a benchmark index, it is important to note that the securities in which the Fund invests may be substantially different than those represented by the benchmark index. Furthermore, an investment in Franklin Templeton Investment Funds represents an investment in a managed investment company in which certain charges and expenses, including management fees, are applicable. These charges and expenses are not applicable to indices. Lastly, please note that indices are unmanaged and are not available for direct investment. Certain data and other information shown have been supplied by outside sources. While we consider that information to be reliable, we give no assurance that such data and information is accurate or complete.

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c. When performance for either the portfolio or its benchmark has been converted, different foreign exchange closing rates may be used between the portfolio and its benchmark.
d. The portfolio characteristics listed are based on the fund's underlying holdings, and do not necessarily reflect the fund's characteristics. Due to data limitations all equity holdings are assumed to be the primary equity issue (usually the ordinary or common shares) of each security's issuing company. This methodology may cause small differences between the portfolio's reported characteristics and the portfolio's actual characteristics. In practice, Franklin Templeton's portfolio managers invest in the class or type of security which they believe is most appropriate at the time of purchase. The market capitalisation figures for both the portfolio and the benchmark are at the security level, not aggregated up to the main issuer. Source: FactSet, Refinitiv. There can be no assurance that the Estimated 3-5 Year EPS Growth figure, based on Institutional Brokers Estimate System (IBES) consensus estimates, will be realised. All holdings are subject to change.
e. Holdings of the same issuers have been combined. Top ten holdings information is historical and may not reflect current or future portfolio characteristics. All holdings are subject to change. The information provided is not a recommendation to purchase, sell, or hold any particular security. The securities identified do not represent the fund's entire holdings and in the aggregate may represent only a small percentage of such holdings. There is no assurance that securities purchased will remain in the fund, or that securities sold will not be repurchased. The portfolio manager reserves the right to withhold release of information with respect to holdings that would otherwise be included.
f. Percentage may not equal 100% due to rounding. All holdings are subject to change.

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